

Message Text

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STADIS//////////
FOR DEPUTY ASSISTANT SECRETARY BOSWORTH

E.O. 11652: GDS

TAGS: EGEN, ENRG, IRN

SUBJECT: BRIEFING MATERIAL FOR SECRETARY'S MEETING
WITH THE SHAH

1. WE ARE TRANSMITTING A BACKGROUND PAPER ON NORTH/SOUTH ISSUES AND A BRIEFING ITEM ON OIL PRICES PREPARED FOR THE SECRETARY'S UPCOMING MEETING WITH THE SHAH. PLEASE SEND ANY FURTHER COMMENTS/CONTRIBUTIONS BY TELEGRAM TO MADRID AND TEHRAN (INFO DEPARTMENT) FOR ASSISTANT SECRETARY ATHERTON FOR HIS USE IN BRIEFING THE SECRETARY PRIOR TO HIS MEETING WITH THE SHAH.

2. BACKGROUND PAPER: IRAN ON NORTH-SOUTH ISSUES. IRAN'S OIL WEALTH THEORETICALLY GIVES IT POWER WITHIN THE GROUP OF 77 (G-77), BUT AS A CONSERVATIVE MONARCHY WITH CLOSE RELATIONS WITH THE WEST, IT FINDS ITSELF SOMEWHAT OUT OF TUNE WITH OTHER LEADING G-77 NATIONS. ALTHOUGH THE

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IRANIANS GIVE PRO FORMA SUPPORT FOR A NEW INTERNATIONAL ECONOMIC ORDER, THEY GENERALLY TAKE A RELATIVELY PRAGMATIC VIEW TOWARD WHAT THE NORTH-SOUTH DIALOGUE WILL BE ABLE TO ACCOMPLISH. THEY ARE WILLING, MOREOVER, TO IGNORE G-77 POSITIONS THAT CONFLICT WITH TEHRAN'S VIEW OF THE NATIONAL INTEREST. ON THE OTHER HAND, IRAN IS SOMEWHAT SYMPATHETIC TO THE G-77'S ASSUMPTION THAT WESTERN ECONOMIC COLONIALISM IS BLOCKING A REDISTRIBUTION OF THE WORLD'S WEALTH AND DOES NOT SUBSCRIBE TO THE UNITED STATES POSITION THAT THE PURCHASING POWER OF LDC

EXPORT EARNINGS HAS NOT BEEN SERIOUSLY ERODED. IN GENERAL, IRAN LIMITS ITSELF WITHIN THE G-77 TO DEFENDING ITS OPEC POSITIONS, PARTICULARLY THE ADVOCACY OF HIGHER OIL PRICES AND LDC ACCESS TO WESTERN TECHNOLOGY.

3. AT UNCTAD IN 1968, THE SHAH STRESSED THAT "IT WAS NEITHER LOGICAL NOR JUST THAT 75 PERCENT OF THE WORLD'S POPULATION HAD TO LIVE ON ONLY 15 PERCENT OF THE WORLD'S INCOME." IN RECENT YEARS, HE HAS COME TO DOUBT THE VALUE OF UNCTAD AS A FORUM FOR FURTHERING IRAN'S INTERESTS AND DISAPPROVES OF THE ANTI-U.S. ORIENTATION OF SUCH KEY LEADERS AS ALGERIA. AT THE UNCTAD MEETING IN NAIROBI IN MAY 1976, IRAN MAINTAINED A LOW PROFILE, INTERVENING ONLY WHEN DEVELOPMENTS IMPINGED ON MATTERS OF DIRECT INTEREST TO IRAN--E.G., ITS CREDITWORTHINESS.

4. SIMILARLY, THE SHAH ONCE REGARDED THE CONFERENCE ON INTERNATIONAL ECONOMIC COOPERATION (CIEC) AS POTENTIALLY USEFUL, BUT HAS COME TO BELIEVE THAT CIEC, ALONG WITH UNCTAD, IS INDECISIVE AND THAT THIS FAILING HAS IMPAIRED THE UTILITY OF THE NORTH-SOUTH DIALOGUE IN PARIS.

5. THE IRANIANS DO NOT APPROVE, BASICALLY, OF COMMODITIES BUFFER STOCKS, ALTHOUGH ADMITTING THEY MAY BE APPROPRIATE FOR TWO OR THREE COMMODITIES. THEY SEE MERIT IN THE CIEC

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PROPOSAL FOR A COMMON SUPPORT FUND. AS A CREDITOR NATION, BUT A POTENTIAL LARGE BORROWER IN THE FUTURE ON INTERNATIONAL MONEY MARKETS, IRAN IS OPPOSED TO A MORATORIUM ON LDC DEBT, PREFERING, INSTEAD, AD HOC ARRANGEMENTS FOR THE ROLL-OVER OR STRETCH-OUT OF THE DEBTS OF PARTICULAR LDCS. IRAN HAS SPECIFICALLY WELCOMED

THE U.S. PROPOSAL FOR AN ENERGY FUND TO EASE THE BALANCE OF PAYMENTS PROBLEMS OF THE MOST HARD-PRESSED LDCS AND HAS SUPPORTED OUR IDEAS ON REGULATING THE ACTIVITIES OF INTERNATIONAL CORPORATIONS.

6. INTERNATIONAL FUND FOR AGRICULTURAL DEVELOPMENT (IFAD). IRAN HAS COOPERATED FULLY WITH US IN GETTING IFAD STARTED. WE INDICATED TO THE IRANIANS THAT WE WOULD LOOK WITH FAVOR UPON AN IRANIAN CANDIDATE FOR THE PRESIDENCY OF IFAD. THE IRANIANS, HOWEVER, HAVE NOT ADVANCED A CANDIDATE FOR THE PRESIDENCY, WHICH WILL PROBABLY GO TO AL-SUDEARY OF SAUDI ARABIA. WE DO NOT FEEL THAT BOTH THE HEADQUARTERS SITE AND THE PRESIDENCY SHOULD BE AWARDED TO OPEC COUNTRIES, ESPECIALLY IN THE INITIAL STAGES OF THE FUND'S OPERATIONS. BUT THAT THEY SHOULD BE DIVIDED BETWEEN THE TWO PRINCIPAL DONOR GROUPS--OPEC AND THE INDUSTRIALIZED

STATES. MOST RECENTLY, WE HAVE TAKEN THE POSITION THAT IFAD HEADQUARTERS SHOULD REMAIN IN ROME FOR A TEMPORARY PERIOD WITHOUT PREJUDICE TO THE SELECTION OF ANOTHER PERMANENT HEADQUARTERS SITE IN THE FUTURE. THE EMBASSY RECENTLY GAVE AN AIDE MEMOIRE ON THIS SUBJECT TO THE IRANIAN GOVERNMENT.

7. OIL PRICES IN CIEC. ORIGINALLY A FOCUS OF THE CIEC, OIL PRICES HAVE BEEN A PRINCIPAL POINT OF DIFFERENCE BETWEEN IRAN AND THE U.S. SINCE LATE 1973. THE IRANIANS EARLY SUGGESTED AN INDEXATION SCHEME TIEING THE PRICE OF OIL TO THE PRICES OF IMPORTED GOODS. THE IRANIANS,

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HOWEVER, HAVE NEVER PRESENTED A DETAILED PROPOSAL.

8. WITHIN THE LAST MONTH, THE GOVERNMENT OF IRAN SEEMS TO HAVE REVERSED ITSELF ON THE ISSUE. MINISTER OF STATE AMOUZEGAR TOLD OUR CHARGE IN TEHRAN THAT IRAN NO LONGER ADVOCATED INDEXATION OF OIL PRICES, BUT PREFERRED THAT OIL BE PRICED AT OR NEAR THE PRICES OF ALTERNATIVE FORMS OF ENERGY. HE DID NOT OFFER SPECIFICS AS TO HOW THIS MIGHT BE ACCOMPLISHED, BEYOND SUGGESTING THAT ONE MIGHT PROJECT THE PRICES OF ALTERNATIVE ENERGY SOURCES AT A PARTICULAR DATE IN THE FUTURE AND THEN ESTABLISH A SCHEDULE WHEREBY OIL PRICES MIGHT MOVE GRADUALLY TOWARD THAT PRICE.

9. SECRETARY'S BRIEFING MEMORANDUM ITEM: OIL PRICES. IRAN IS CONSIDERED A PRICE HAWK ALTHOUGH THE IRANIANS HAVE ALWAYS CLAIMED TO BE "MODERATE" ON THE OIL PRICE ISSUE (COMPARED TO IRAQ AND LIBYA). ITS PROMINENT ROLE WITHIN OPEC ARISES FROM ITS LARGE PRODUCTION AND ARTICULATE LEADERSHIP OF THE OPEC MAJORITY WHICH CONTINUES

TO FAVOR SUBSTANTIAL INCREASES IN WORLD OIL PRICES. AT DOHA IN DECEMBER, IRAN AND THE OPEC MAJORITY DECIDED TO RAISE THEIR PRICES BY TEN PERCENT ON JANUARY 1 AND BY AN ADDITIONAL FIVE PERCENT ON JULY 1. SAUDI ARABIA AND THE UAE ANNOUNCED A FIVE PERCENT INCREASE FOR THE YEAR AND SAUDI ARABIA ORDERED AN INCREASE IN PRODUCTION. AT ISSUE IS WHETHER SAUDI ARABIA CAN BRING SUFFICIENT PRESSURE ON THE SALES OF ITS GULF NEIGHBORS, PARTICULARLY IRAN, TO REESTABLISH THE SAUDI VETO OVER OPEC PRICE DECISIONS. HIGH WORLD DEMAND AND BOTTLENECKS IN SAUDI ARABIA HAVE SPARED THE HIGHER PRICED PRODUCERS FROM FEELING ANY PRESSURE THUS FAR AND THEY ARE LIKELY TO REMAIN IN A STRONG POSITION FOR SEVERAL MONTHS BEFORE BARGAINING STRENGTH BEGINS TO SHIFT IN FAVOR OF THE SAUDIS TOWARD THE END OF THE YEAR. OUR INTEREST IN MODERATING THE OPEC PRICE PATH IS SERVED BY A

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CONTINUATION OF THE SAUDI POLICY UNTIL THEY HAVE DEMONSTRATED A CONVINCING POTENTIAL TO FLOOD THE MARKET TO THE DETRIMENT OF THE KEY UPPER TIER PRODUCERS. AT THE SAME TIME WE SHOULD ATTEMPT TO DISCOURAGE THE SHAH AND OTHER LEADERS IN THE UPPER TIER GROUP FROM GOING AHEAD WITH AN ADDITIONAL FIVE PERCENT PRICE INCREASE IN JULY. THE SHAH, HOWEVER, IS LIKELY TO VIEW THE ADMINISTRATION'S ENERGY POLICY, WITH ITS RECOGNITION OF THE NEED FOR A RISING TREND IN DOMESTIC ENERGY PRICES, AS A VINDICATION OF THE POLICIES HE HAS PURSUED.

10. YOUR APPROACH

-- THE PRESIDENT'S PROGRAM CALLS FOR MOVING US DOMESTIC OIL PRICES UP THE CURRENT WORLD PRICE LEVEL BY STAGES.

-- THIS DOES NOT MEAN THAT WE CONSIDER THE WORLD PRICE AS RIGHT OR THAT ANY FURTHER QUANTUM INCREASE IN THE GENERAL WORLD PRICE LEVEL IS JUSTIFIED.

-- THE WORLD ECONOMY IS STILL STRUGGLING TO ADJUST TO PAST SHARP OIL PRICE INCREASES AND WE HOPE THAT IRAN WILL REFRAIN FROM SUPPORTING ANY FURTHER PRICE INCREASE IN JULY. CHRISTOPHER

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